AR18

NORTH CANADIAN OILS LIMITED

1979 ANNUAL REPORT

NORTH CANADIAN OILS LIMITED

COMPANY PROFILE

Founded in 1947, North Canadian Oils is an Alberta based company whose principal business is the exploration for oil, natural gas and other minerals and the development of these resources. The Company owns extensive gas producing properties in Alberta and Saskatchewan, prospective exploration lands in Canada and the United States, a 136 mile gas transmission line and extensive coal leases.

Aside from its holdings related to mineral resources, North Canadian has investments in the forest products industry, and a large Canadian food service company.

The shares of the Company have been listed on the Toronto and American Stock Exchanges since 1952.

ANNUAL MEETING:

The 1980 Annual Meeting of shareholders will be held Thursday, April 17, 1980, at 9 a.m. local time, Lake Louise Room, The Calgary Inn, Calgary, Alberta, Canada.

A formal notice of this meeting together with proxy statement and form of proxy, have been mailed with this report. All shareholders who are unable to attend the meeting are requested to sign and return their proxies which must reach the Company's office at least 48 hours prior to the time of the meeting.

COVER PHOTO
NATURAL GAS COMPRESSOR
STATION AT HATTON —
RICHMOND, SASK.

photo by Peter Boli
A.B.L. Colour Labs
Calgary.

THE YEAR AT A GLANCE

Financial	1979	1978
Gross Revenue (before royalty)	$17,489,000	$19,850,000
Cash Flow	6,800,000	7,126,000
Net Income before extraordinary items	4,361,000	5,269,000
Per Share (after provision for preferred share dividend)	.96	1.11
Net Income after extraordinary items	10,427,000	6,038,000
Per Share (after provision for preferred share dividend)	2.32	1.28
Exploration Expenditures	2,800,000	4,200,000
Development Expenditures	5,100,000	500,000
Investment in affiliate	20,546,000	17,769,000
Shareholders' Equity	37,656,000	27,104,000

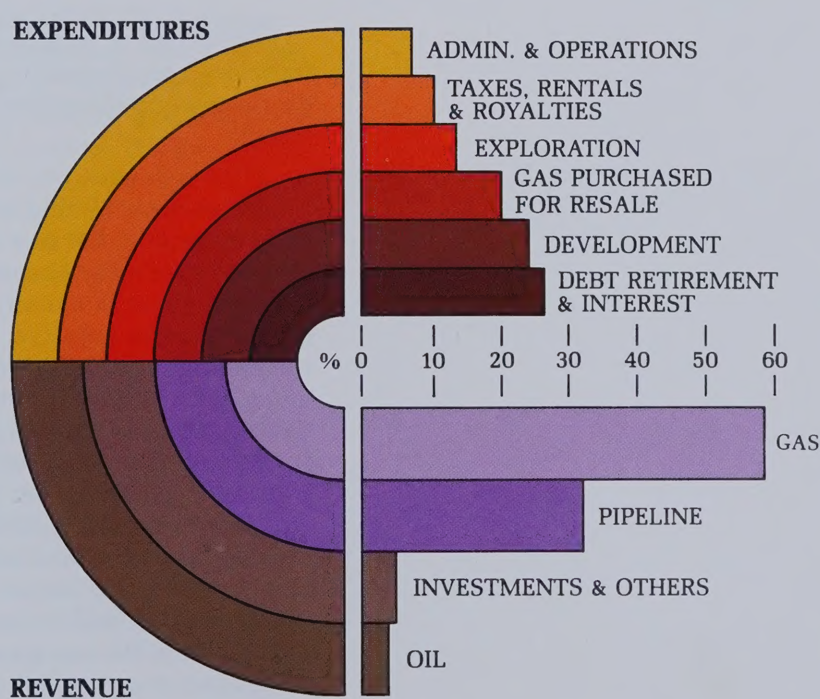
Operating	1979	1978
Natural Gas Production — billion cubic feet	18.1	18.7
Average per day — million cubic feet	49.6	51.3
Pipeline — Annual throughput, billion cubic feet	7.5	7.6
Oil Production — barrels	47,700	40,000

Estimated Gross Proven Recoverable Reserves — January 1, 1980

GAS	648 Billion cubic feet
OIL	539 Thousand barrels

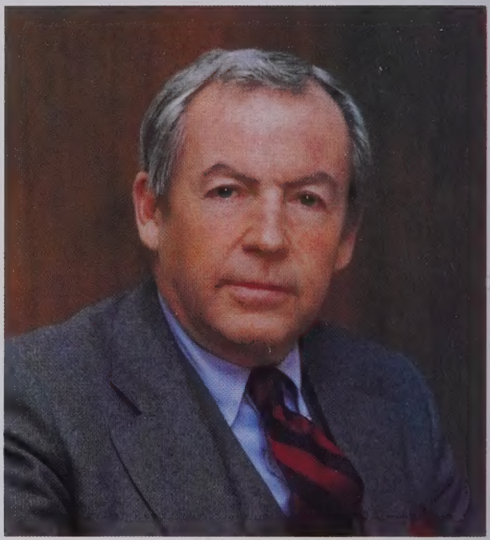
Undeveloped Acreage March 1, 1980

Area	Gross	Net
Alberta	314,282	149,190
Saskatchewan	10,700	10,700
British Columbia	9,901	2,245
U.S.A.	798,834	121,197
	1,133,717	283,332



NOTE: All statistical information includes data relating to the gas properties of Hatleigh Corporation.

TO THE SHAREHOLDER



On behalf of your Board of Directors I am pleased to present the Company's thirty-third annual report.

A review of North Canadian's achievements of the past year clearly reflects the Company's principal areas of activity. Despite intense industry competition, land holdings were increased by 56,000 gross acres including a 51% interest in 18,600 acres of semi-developed gas properties estimated to contain proven and probable reserves of 28.7 billion cubic feet. In the United States, the Company materially added to its holdings with the purchase in early 1980 of a 20% interest in 770,000 acres of prospective undeveloped lands in north central Nebraska. In exploration, North Canadian participated in the drilling of 32 wells which resulted in 2 oil discoveries and 13 gas discoveries.

Since April of 1979, the Company's exploration activity has been principally concentrated in southern Alberta in search for the elusive but often prolific oil and gas pools to be found in the Lower Cretaceous channel sands and river bar deposits. In a relatively short period of time North Canadian has participated in 2 oil and 8 gas discoveries and has succeeded in establishing a strong land position in what could prove to be a prime exploration area for the Company. Another very active exploration area in which the Company has greatly improved its presence is the "Deep Basin" of north western Alberta in which it presently holds interests ranging from 4.6% to 11% in 45,360 acres.

North Canadian's exploration plans for 1980 were bolstered significantly when last October it signed a joint venture agreement with St. Regis Resources Ltd., Financial Trust Company and Canadian General Investments Ltd., which provided approximately $7.5 million for exploration in Canada. The agreement does not affect exploration by the Company in the United States or elsewhere.

Additional gas exports to the United States were authorized by the Canadian Government in late 1979. While the quantity of new gas approved for sale and its allocation among the several applicants did not satisfy everyone, the long awaited approval is a very positive step forward for Alberta gas producers who are holding substantial quantities of gas surplus to Canada's foreseeable needs. Because of the time needed to construct the additional transportation facilities required, however, it is unlikely that any significant relief will occur for at least another two years. This is, of course, a matter of continuing concern to North Canadian as the Company is each year adding to its already sizable volume of uncommitted reserves. At the beginning of 1980, the Company held various interests in 49 shut in gas wells and approximately 200,000 acres of related lands. While many of the wells have yet to be fully evaluated, it is believed by the Company that it now has for its account a possible 50 billion cubic feet of recoverable gas waiting the development of new markets in eastern Canada and the United States. These reserves are not included in the Company's estimate of proven gas reserves which as of the year end were 648 billion cubic feet. Estimated oil reserves at December 31, were 539,118 barrels.

Combined net operating income from all of the Company's oil and gas operations, including $3.9 million from the Hatleigh properties, was a record $12.4 million in 1979, an increase of approximately 16%. Net income, after including $6,066,000 of extraordinary items, was $10,427,000 or $2.32 a share compared to an equivalent figure for 1978 of $6,038,000 or $1.28 a share.

During 1979, the Company sold a substantial portion of the shares of St. Regis Paper Company which it had held for a number of years. The proceeds of $5,663,000 were applied to reduction of long term debt. At the year end North Canadian still owned 168,778 St. Regis shares.

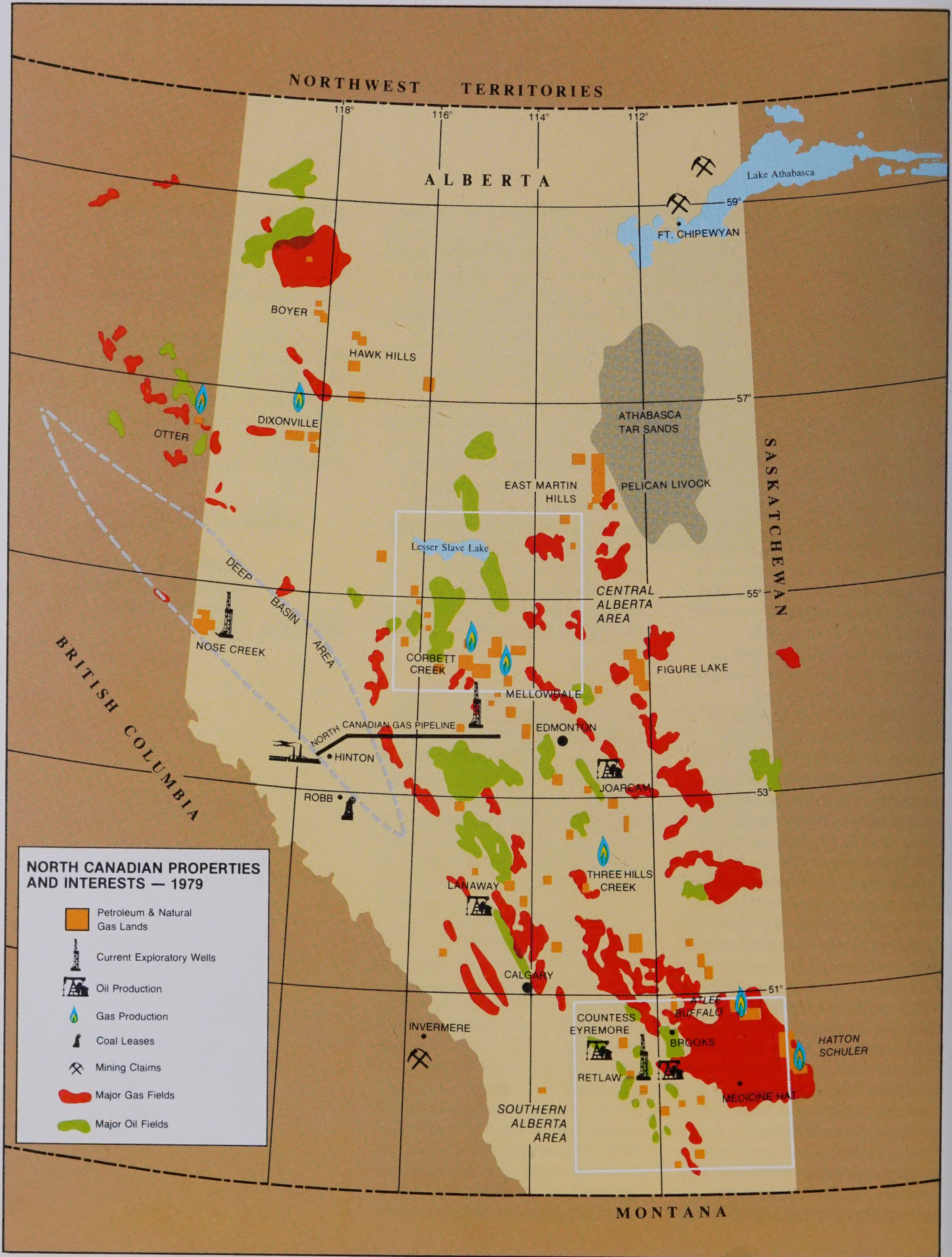
Despite the political uncertainty of Canada attributable to the recent change in government and the talk of renewed confrontation between the Federal Government and the producing provinces, any serious impact on the petroleum industry is believed unlikely. Oil and gas prices must and will continue to rise and, if Canada is to achieve its goal of energy self sufficiency, it is imperative that a hospitable economic environment be maintained. Inspired by its accomplishments in 1979, North Canadian entered 1980 with considerable momentum and looks to the balance of the year with enthusiasm and optimism.

As in previous years, I take this appropriate opportunity to thank all of North Canadian's employees for their very significant contribution to whatever past success the Company has enjoyed.

Robert F Ruben

ROBERT F. RUBEN
President and Chief
Executive Officer

MARCH 3, 1980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ALBERTA
SASKATCHEWAN
BRITISH COLUMBIA
MONTANA
118°
116°
114°
112°
59°
57°
55°
53°
51°
Lake Athabasca
FT. CHIPEWYAN
BOYER
HAWK HILLS
DIXONVILLE
OTTER
ATHABASCA TAR SANDS
EAST MARTIN HILLS
PELICAN LIVOCK
Lesser Slave Lake
DEEP BASIN AREA
CENTRAL ALBERTA AREA
NOSE CREEK
CORBETT CREEK
FIGURE LAKE
MELLOWDALE
NORTH CANADIAN GAS PIPELINE
EDMONTON
HINTON
ROBB
JOARCAM
THREE HILLS CREEK
LANAWAY
CALGARY
ATLEE BUFFALO
COUNTESS EYREMORE
BROOKS
HATTON SCHULER
INVERMERE
RETLAW
MEDICINE HAT
SOUTHERN ALBERTA AREA
NORTH CANADIAN PROPERTIES AND INTERESTS — 1979
Petroleum & Natural Gas Lands
Current Exploratory Wells
Oil Production
Gas Production
Coal Leases
Mining Claims
Major Gas Fields
Major Oil Fields

D. F. CHRISTENSEN
Vice-President, Exploration

EXPLORATION

North Canadian's exploration program over the past year was highlighted by several significant developments:

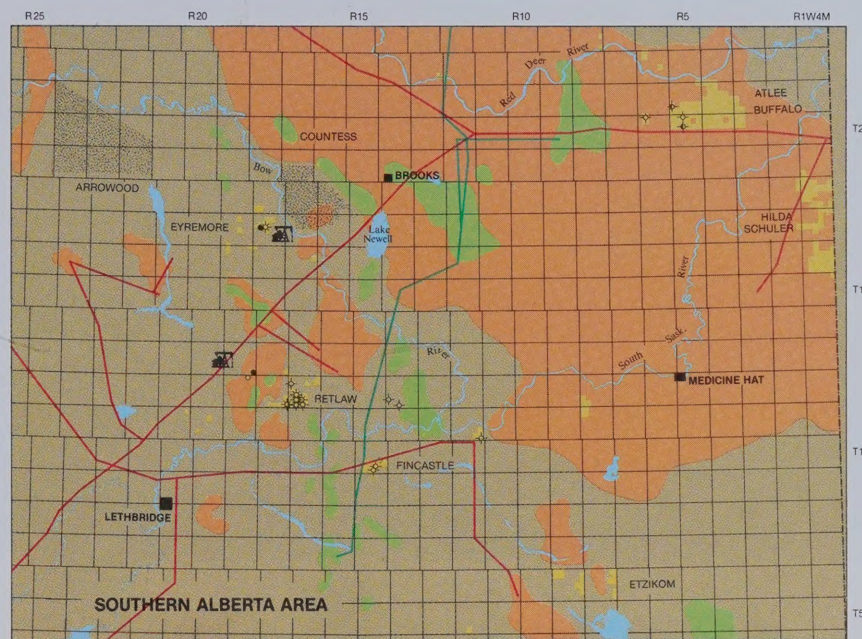
- The encouraging results obtained from the Company's exploration endeavors in the Lower Cretaceous or so called "channel sand" play of southern Alberta.

- The acquisition of varying interests in approximately 56,000 acres of new exploratory land in Alberta, including a significant representation in the "deep basin" of northwestern Alberta.

- The acquisition of a 20% interest in 770,000 acres of undeveloped exploratory leases in the United States.

- The formulation of a joint venture exploration agreement, between the Company and a group of Canadian investors, which will enable the Company to greatly accelerate its program of drilling and land acquisition on the numerous prospects generated by its technical personnel over the past several years.

- Participation in the drilling of 32 exploratory wells, resulting in 2 oil and 13 gas discoveries.



NCO LAND HOLDINGS

GAS FIELDS — GAS PIPELINES

OIL FIELDS — OIL PIPELINES

1979 EXPLORATORY WELLS

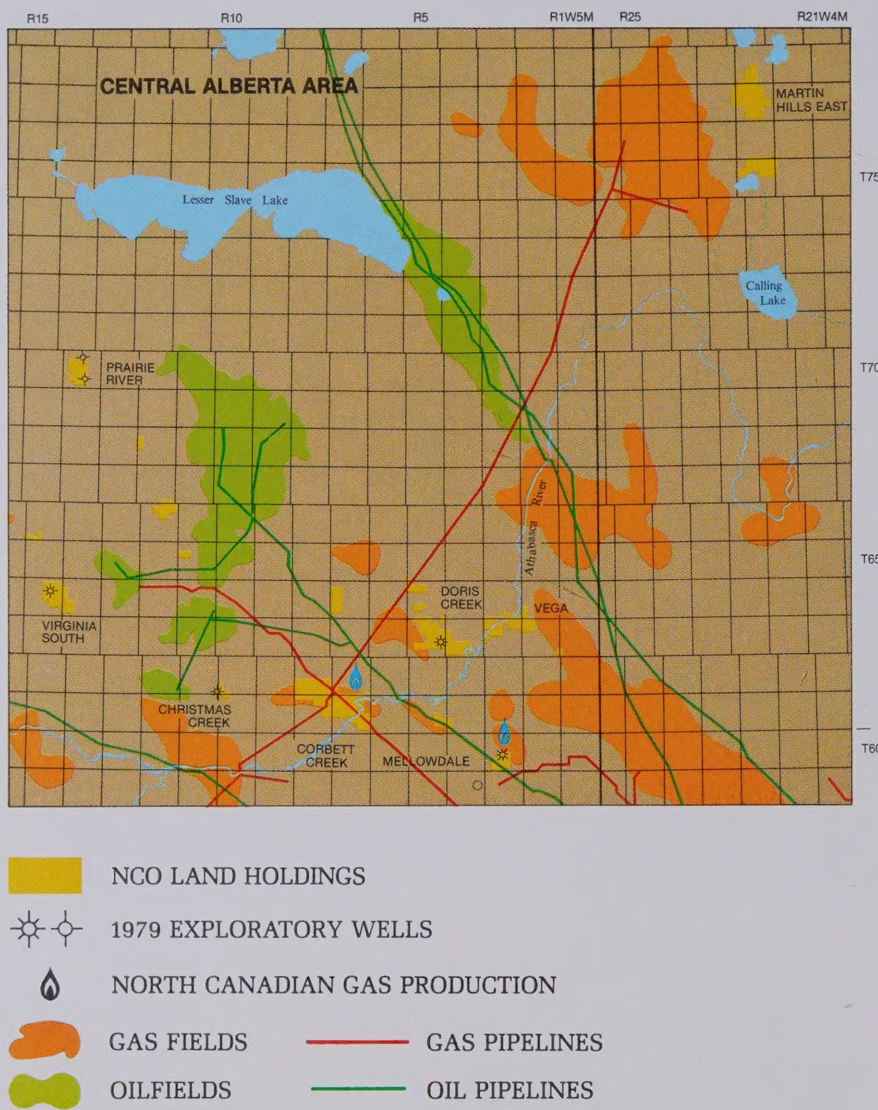
PRODUCING OILWELL

AREAS OF ACTIVE NCO GEOPHYSICAL EXPLORATION

Canada

North Canadian's exploration activity in 1979, as in the previous year, was concentrated almost exclusively in Alberta. There was, however, a shift in emphasis from central and northern Alberta to southern Alberta where the Company enjoyed considerable success in its search for Lower Cretaceous channel sand and river bar deposits. Approximately 700 miles of seismic data was evaluated, interest was acquired in 21,300 acres of new exploratory land and 20 wells were drilled in this area in 1979. Two oil wells, presently on production, and 8 gas wells resulted from this program. It is expected your company will, during 1980, participate in a minimum of 20 wells in southern Alberta where it presently holds interests ranging from 10% to 62½% in approximately 91,000 acres of leases.

In central Alberta, the Company was active in a program of geophysical evaluation, land

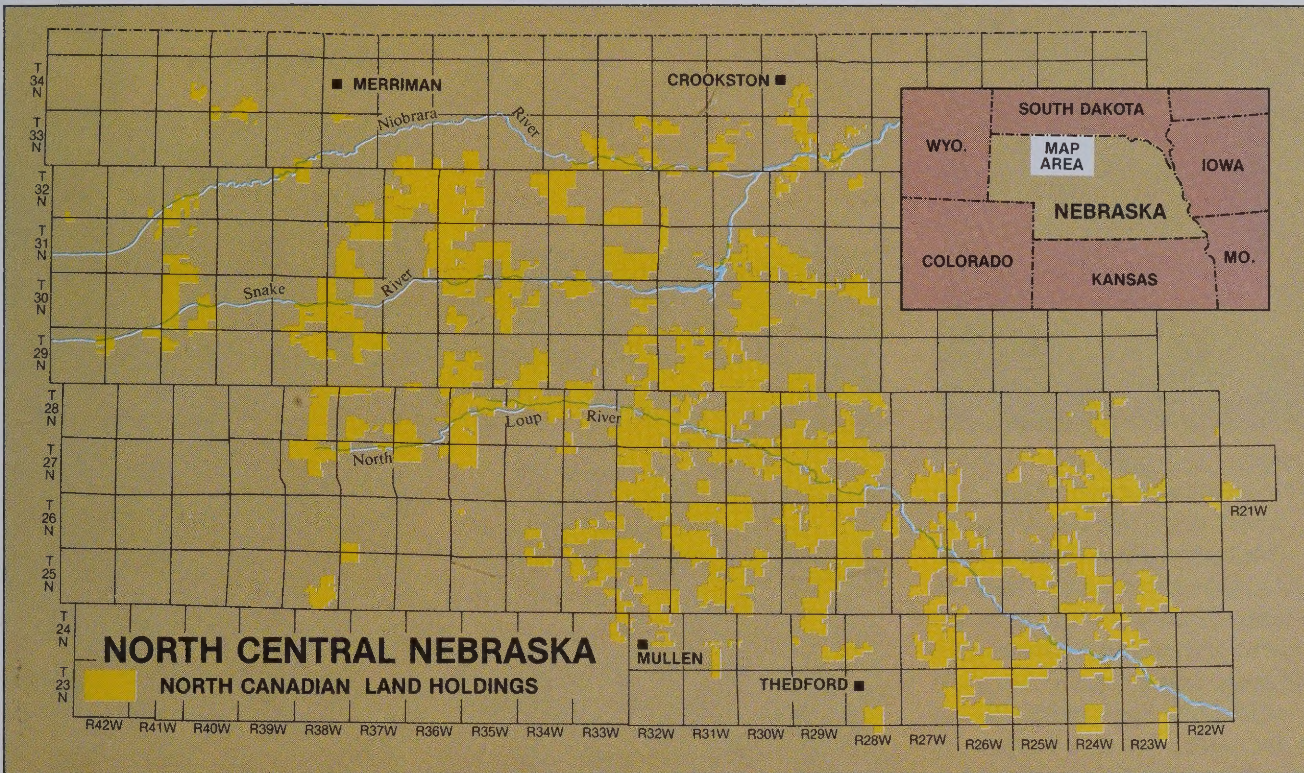


acquisition and farm-in negotiations. Though several farm-ins were concluded in the latter part of 1979, difficulty in obtaining drilling equipment reduced the Company's planned level of activity in this area. Of 5 wells drilled during the period, 3 were completed as gas discoveries. At East Marten Hills a 51% interest was purchased in 18,560 acres of a semi-developed gas pool containing 3 shut in gas wells. North Canadian now owns a total of approximately 127,000 gross acres in central Alberta and expects to participate in at least 7 exploratory wells in this part of the province in 1980.

The "Deep Basin" play, spread over a vast area of northwestern Alberta and northeastern British Columbia, has been the focus of vigorous exploration activity during the past two years. Huge reserves of gas in place are indicated by drilling. Depending on future gas price increases and technological advances in fracturing the relatively low porosity gas zones, the "Deep Basin" could become one of the world's largest gas reserve basins. In mid February 1980 your company, as a 10% partner, joined in the purchase of an 11,920 acre block of land at Nose Creek, Alberta, located in the southern portion of the "Deep Basin" adjacent to the eastern margin of the Foothills Structural Belt. This exploration license is contiguous to and surrounding 33,440 acres of leases which were acquired in 1972 and in which North Canadian holds interest varying from 4.6% to 11.5%. A stratigraphic test located on the Nose Creek leases in which your Company has a small carried interest was commenced in March 1979 and reached total depth of 15,006 feet in November 1979. Evaluation of several indicated gas zones intersected by this well is presently in progress.

United States

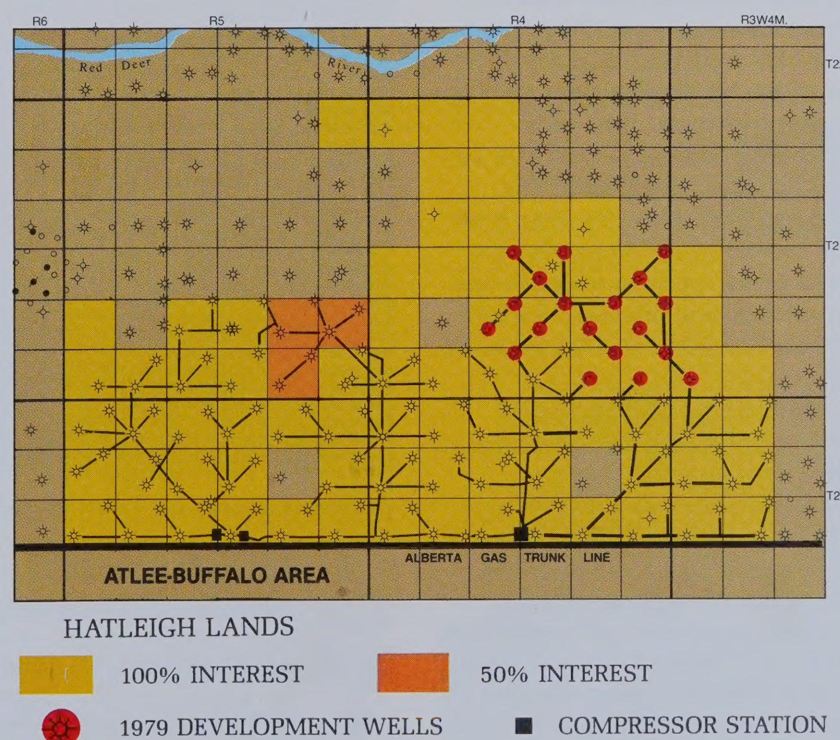
In January 1980 North Canadian acquired a 20% interest in approximately 770,000 acres of oil and gas leases located in Hooker and Cherry counties in north central Nebraska. These lands held under 82% net revenue 9 year term leases, give the Company a significant representation in the shallow Cretaceous Niobrara gas play that stretches from northeastern Colorado through Kansas and now appears to extend into Nebraska. Several million acres of leases contiguous to and south of North Canadian's holdings have been acquired by major companies over the past two years. An initial $2 million exploration program including geophysical evaluation and the drilling of approximately 25 exploratory wells is planned for the area by North Canadian and its partners in 1980.



DEVELOPMENT

During the year the Company successfully drilled and completed a total of 29 development wells, all in the Atlee Buffalo and Hatton areas. North Canadian now owns and operates a total of 510 gas wells in southeastern Alberta and southwestern Saskatchewan. Predicated on full development of both the Medicine Hat and Milk River Sands there are more than 600 proven locations remaining to be drilled.

In the Three Hills Creek Pekisko Unit No. 1, the Company shared in the drilling of three new gas wells and a general expansion and upgrading of the compression and gas plant facilities.



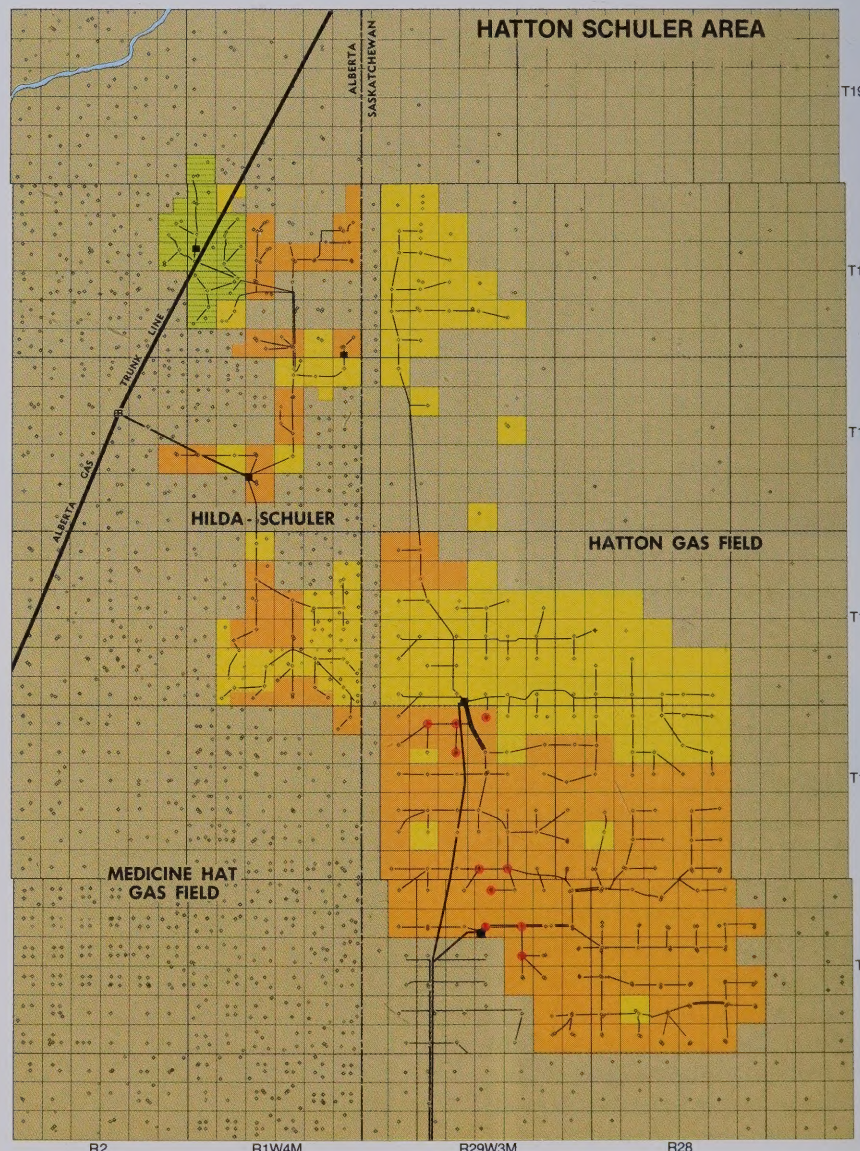
Included was the addition of a new refrigeration plant which has materially improved the production of condensate and the recovery of LPG. North Canadian has been a participant in this producing unit since 1959.

PRODUCTION

NATHAN GOODMAN
Vice-President, Production

Total production from all of the Company's gas properties, including those of Hatleigh Corporation, was 18.1 billion cubic feet, a decline of approximately 3% from 1978. The decrease, due to a large extent to normal field depletion, also reflects a four month difference in timing between the Company's accounting year and its sales contract year with the Saskatchewan Power Corporation. It is expected that as a result of an extensive development drilling program planned for 1980, current production levels will be maintained or improved. The Company will also this year have the benefit of added production from 2 new wells in which it has a participating interest, one in British Columbia and the other in Alberta.

Reversing the downward trend of the last five years, the Company recorded a 19% improvement in oil production in 1979. Total production for the year was 47,713 barrels or 131 barrels a day compared to an average of 110 barrels a day in 1978. Nearly all of the increase is attributable to three new oil discoveries, two of which were not placed on production until late in the year. Oil production for the first month of 1980 averaged 152 barrels a day, a gain of 38% over January of 1979.



NORTH CANADIAN GAS PROPERTIES

MEDICINE HAT RIGHTS — MILK RIVER RIGHTS

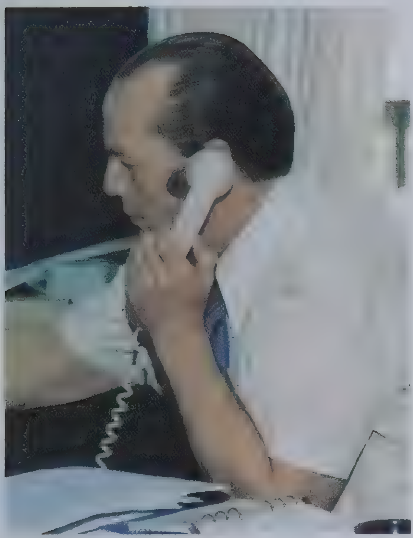
MEDICINE HAT RIGHTS AND MILK RIVER RIGHTS

ASSIGNED TO HATLEIGH CORP. — COMPRESSOR STATION

1979 DEVELOPMENT WELLS (TWIN-MILK RIVER ZONE)

As the result of higher wellhead prices and a significant adjustment by the Alberta government in the crown royalty on low productivity gas wells, net oil and gas revenue from the Company's properties rose by $1.65 million or 14.4% in 1979.

RESERVES



BENJAMIN L. COOK
Vice President, Land

North Canadian's estimated proven recoverable gas reserves, developed and under contract, were 648 billion cubic feet as of January 1, 1980, a decline for the year of less than 2.5%.

In addition, the Company has, by its own estimate, a possible 50 billion cubic feet or more of undeveloped gas presently shut in for lack of market.

Proven oil reserves at the beginning of 1980 were 539,118 barrels, an increase of approximately 70% since January 1, 1979.

At Joarcam, where the Company has a 9% interest in producing oil properties operated by Imperial Oil Ltd., application has been made to the Alberta Energy Resources Conservation Board for approval of a water flood injection program. Feasibility studies indicate that the proposed secondary recovery scheme will, if successful, increase North Canadian's recoverable oil reserves by an estimated 600,000 to 800,000 barrels.

PIPELINE

Net operating revenue from the Company's 136 mile Wabamun-Hinton pipeline was $895,000, relatively unchanged from 1978.

Principal customer of the line is the bleached sulphate pulp mill and forest products complex owned by St. Regis (Alberta) Ltd. at Hinton. Gas is also sold to smaller industrial users along the pipeline's route and to Gas Alberta, a government agency established to serve the requirements of the smaller rural gas distribution systems. In addition to its sales accounts, a substantial source of revenue for the pipeline is the transportation of gas belonging to a major gas utility company.

All sales gas for the pipeline is purchased from Alberta and Southern Gas Co. Ltd. under a contract which ensures a long term supply of up to 30 million cubic feet a day. An additional 10 million cubic feet a day is available from other sources if required. Average daily throughput for the line in 1979 was 20.5 million cubic feet a day, approximately the same as last year.

W. K. MILLER
Manager, Gas Transmission

HATLEIGH CORPORATION

Hatleigh Corporation, in which North Canadian owns 100% of the common shares (representing 49.3% of the aggregate voting power of Hatleigh), is a holding company engaged in the business of making investments. Based in Toronto, its principal interests include 100% of the outstanding common shares of Foodex, Inc., a company mainly involved in the restaurant business in Canada, a 100% working interest in certain producing gas properties in Alberta, 1.2 million shares or 21.5% of the outstanding common shares of North Canadian Oils Limited and a portfolio of marketable securities. Peel-Elder Developments Limited, a wholly owned Ontario real estate company, was sold by Hatleigh in January of 1979.

Hatleigh's net earnings for 1979, including $10,939,000 in extraordinary items principally attributable to the sale of Peel-Elder and shares of McIntyre Mines, was $13,810,000.

FOODEX, INC.

The principal division of Foodex operates 106 "Ponderosa Steak Houses" which it owns or holds under long term lease. Exclusive use of the Ponderosa name in Canada is by agreement with a U.S. corporation, Ponderosa Systems Inc.

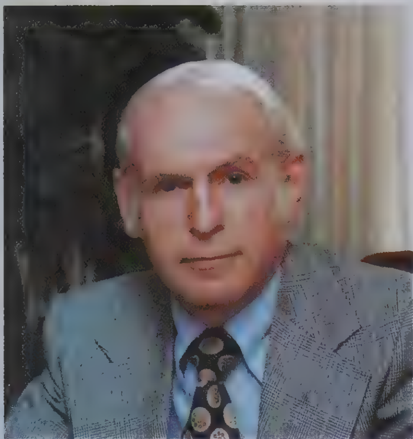
Foodex also owns and operates a chain of 36 Frank Vetere Pizzerias, all in the province of Ontario. Featuring a unique deep pan pizza served in pleasant surroundings, the Frank Vetere chain is believed destined to become a significant factor in the pizza segment of the food service industry in Canada and, eventually, the United States.

In addition to its restaurant operations Foodex also owns approximately 62.9% of the outstanding capital stock of Gibraltar Pari-Mutuel, a New Jersey corporation which, through subsidiaries, owns and operates a thoroughbred race track at Bowie, Maryland and a trotting track at Freehold, New Jersey.

Despite a 33% increase in food sales, higher than anticipated operating and food costs coupled with the added expense of opening 22 new outlets resulted in a material reduction in earnings for Foodex in 1979. Consolidated net income for the year was $1,800,000 compared to $3,500,000 in 1978. Net income of Gibraltar Pari-Mutuel, which is reflected in the reported Foodex earnings, was $660,000 (U.S.) compared to $549,000 (U.S.) a year ago.

A number of moves are being made to strengthen the Company's food operations in 1980. Emphasis will be placed on greater utilization of existing facilities through concentration on the luncheon trade and the introduction of new food items. Customer count should improve as a result of planned changes in television advertising and special promotions.

Frank Vetere Pizzerias feature a unique deep pan pizza served in pleasant surroundings



CHARLES K. LOUGH
Senior Vice-President, Finance

Comparison of 1979 to 1978

Revenue

Revenue attributable to gas and oil properties, including those properties held by its affiliate, Hatleigh Corporation, was $16.3 million compared to $15.3 million in 1978. Net revenue (after royalties) was $13.1 million versus $11.5 in 1978, a gain of 14%. The change is directly related to a higher weighted average price for gas produced and sold in Alberta which increased to $1.74 per thousand cubic feet from $1.50 in 1978 and to lower royalties. The reduction in the royalty rate for Alberta low deliverability gas wells, implemented in August 1978, accounted for a saving of approximately $700,000 or 16% in 1979.

The Company's revenue from oil production, representing 4% of operating revenue, was up $100,000 and is attributable to increased production and price.

Pipeline revenue remained constant with that of 1978, as the higher cost of gas was offset by a like increase in the selling price.

Investment and miscellaneous revenue increased by approximately 30% as a result of interest earned on short term investments and management fees.

Expenses

Despite the continued pressure of inflation throughout 1979, an improvement in operating procedures and a reduction in repair and maintenance costs resulted in operating expenses being marginally lower for the year.

Interest expense was up approximately $400,000, principally as a result of an increase in prime interest rates from 11.5% at January 1 to 15% at December 1980, an increase of 30% during the year.

Administration expenses and and the provision for depletion and depreciation were virtually unchanged. Total expenses, excluding income taxes, were down $1.4 million. The reduction related to the 1978 amortization and write-off of foreign exploration costs. The provision for income taxes although up 15% over 1978, remained constant at approximately 29% of pre-tax profits. Current taxes reflecting the additional expenditures made during the year in exploration and development were reduced by $700,000.

Extraordinary Items

A significant gain of $6.1 million was generated from items of an extraordinary nature during the year. The principal items were the Company's portion of the gain on the sale by Hatleigh Corporation of Peel-Elder Developments Limited ($2.9 million), the sale of shares of McIntyre Mines Limited ($1.7 million) and a reduction of income taxes on application of losses brought forward ($1.1 million). In addition, North Canadian recorded a gain of $196,000 on the settlement of a shareholder's action and $170,000 from the sale of St. Regis shares.

Equity In Operating Income Of Affiliate

The Company accounts for its interest in Hatleigh Corporation on the equity basis. During 1979, equity in the operating income of Hatleigh, after providing for preferred share dividends of $1,943,000, was $359,000. The comparative amount in 1978 was $1.8 million after deducting preferred share dividends of $753,000. Comparison of these results is not meaningful because of certain corporate changes which occurred in August 1978 and the sale, effective January 1, 1979, of Peel-Elder Developments Limited.

Net Income

Income per common share, based on 4,453,000 shares in 1979 and 4,680,000 shares outstanding in 1978, was 96¢ as compared to $1.11 respectively. Net income after the extraordinary item was $10,427,000 or $2.32 per share versus $6,038,000 or $1.28 per share in 1978.

Changes In Financial Position

Funds provided from operations were $6.8 million versus $7.1 in 1978. In addition the Company received $5.7 million on the sale of 150,000 shares of St. Regis Paper Company, $3.3 against the Note Receivable from Hatleigh Corporation and other receipts of $595,000. Expenditures on

exploration and development including the purchase of semi-developed gas properties amounted to $2.8 million and $5.1 million respectively. $1.1 million was expended on other capital investment and $3.5 million was applied to the reduction of long term debt. Working capital at December 31, 1979 was $4.2 million as compared to $451,000 at December 31, 1978.

Subsequent to the year end, the Company sold 100,000 shares of St. Regis Paper Company and applied the proceeds to the bank loan.

* * *

Comparison of 1978 to 1977

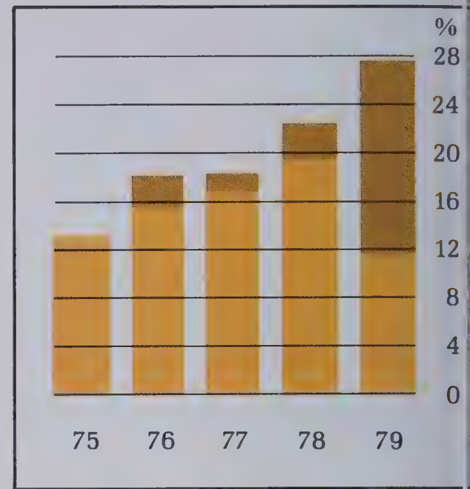
The Company's 1978 and 1977 results are not comparable by reason of the transfer by the Company to Hatleigh on August 31, 1978 of certain producing gas properties in connection with the reorganization of Hatleigh in which the Company became Hatleigh's sole common shareholder. During the last four months of 1978 the revenues from these properties amounted to $1,750,000 and the related royalties and operating expenses amounted to $453,000 and $126,000 respectively which are 12.7%, 11.8% and 7.2% of the 1977 totals. These amounts along with related provision for taxes, depletion and depreciation are recorded in Hatleigh's accounts and reflected in the Company's accounts through its equity in operating income of Hatleigh.

Revenue

Total oil and gas revenue, including $1.7 million from those properties now held by Hatleigh was $15.3 million, up 11.3% over 1977. The increase was due entirely to higher prices which more than offset a decrease of 3% in gas production and a 7.5% decrease in oil production. The weighted average price received for all gas sold in 1978 was 81¢ per thousand cubic feet compared to 70¢ in 1977. Average price for crude oil rose from $10.36 a barrel to $12.86. The price received by the Company for gas in Alberta currently averages $1.52 per thousand cubic feet and in Saskatchewan 41¢ per thousand cubic feet. The substantial gain in revenue from Wabamun-Hinton pipeline is related to higher gas prices. The increase, however, was negated by a similar increase in the cost of gas purchased for resale. The decline in net operating revenue of $178,000 is directly related to the changes effective April 1977, in the gas purchase contract with one of the major customers.

Royalties

The average royalty paid by the Company on gas produced in Saskatchewan was 10.6% or approximately 4.2¢ per thousand cubic feet. In Alberta the average royalty paid in 1978 was 32.4% or 48.8¢ per thousand cubic feet. On August 1, 1978, the Alberta government implemented a new royalty schedule for low deliverability gas wells, which reduced the royalty paid by the Company on the majority of its Alberta production by approximately 17¢ per thousand cubic feet. This lower royalty will have a significant effect on the Company's net revenue in future years.



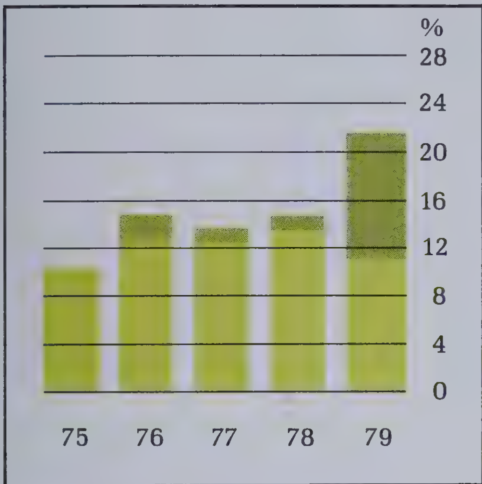
RETURN ON SHAREHOLDERS' EQUITY

BEFORE EXTRAORDINARY ITEMS

AFTER EXTRAORDINARY ITEMS

Expenses

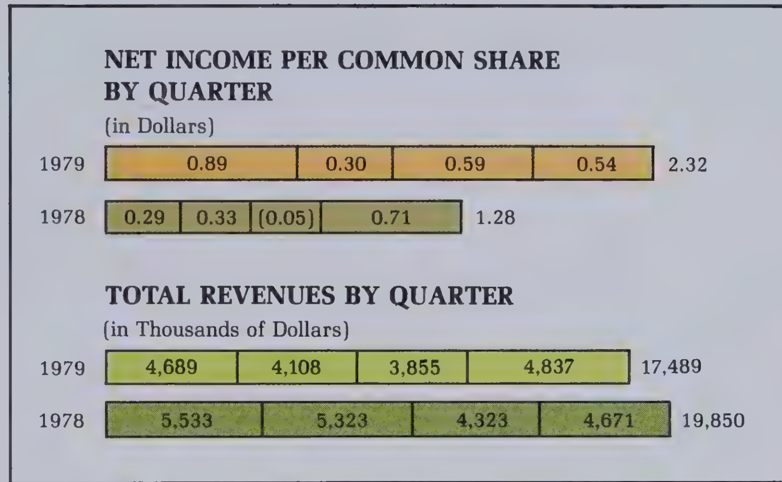
A full year's operation of development wells drilled and placed on stream during 1977, plus the higher cost of maintaining production from more mature fields coupled with the normal increases in labor, material and general costs accounted for increased operating expenses of 8.5% over 1977. Operating expenses in 1978 were 12.9% of gas and oil revenue compared to 11.8% in 1977. The substantial increase of $314,000 in administrative costs was to a large extent attributable to higher legal, audit, salary and general expenses as a result of increased corporate activities. Interest expense on long term debt increased to $1.9 million from $547,000 in 1977. This increase reflected the higher interest plus an increase in the bank loan attributable to the payment in August 1978 of the balance of the purchase price for the Company's August 1977 purchase of Hatleigh's shares. The provisions for depreciation, depletion and the amortization of foreign exploration costs, before



RETURN ON AVERAGE CAPITAL EMPLOYED

BEFORE EXTRAORDINARY ITEMS

AFTER EXTRAORDINARY ITEMS



the write-off referred to below, totaling $1.2 million were approximately of the same magnitude as in 1977. Because of the decision to relinquish the Company's exploration concession in India, the unamortized portion of the costs associated therewith in the amount of $1,520,000 (33¢ per common share), including the drilling of a 13,000 foot offshore well, were written off against income in 1978. The reduction in corporate income tax of $963,000 reflects the lower pre-tax income and increased expenses.

In 1978, the Company's share of equity in the operating and extraordinary income of Hatleigh was $2,577,000.

Income per common share was $1.11 versus $1.04 in 1977. Net income after the extraordinary item was $6,038,000 or $1.28 per share as compared to $6,623,000 or $1.16 per share in 1977. The weighted average number of shares used in 1978 was reduced by the number of shares of the Company acquired in 1978 by Hatleigh Corporation.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of North Canadian Oils Limited as at December 31, 1979 and 1978 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination of the consolidated financial statements of North Canadian Oils Limited was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of other auditors who have examined the financial statements of the company accounted for on the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and 1978, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada
March 7, 1980

Peat, Marwick, Mitchell & Co.
Chartered Accountants

FIVE YEAR SUMMARY OF OPERATIONS

	1979	1978	1977	1976	1975
Revenue					
Gas and oil	$10,782	$13,589	$13,783	$ 9,356	$ 6,828
Less royalties	1,889	3,427	3,839	2,491	1,615
	8,893	10,162	9,944	6,865	5,213
Pipeline operations	5,561	5,543	3,712	2,112	2,171
Investment income	783	636	754	820	900
Miscellaneous	363	82	95	205	131
	15,600	16,423	14,505	10,002	8,415
Expenses					
Operating and administrative	2,274	2,462	2,012	1,687	1,442
Gas purchased for resale	4,408	4,410	2,392	509	842
Interest	2,320	1,903	547	216	371
Income tax — current	(202)	522	1,344	1,525	1,319
	8,800	9,297	6,295	3,937	3,974
Cash Flow	6,800	7,126	8,210	6,065	4,441
Per common share	1.46	1.53	1.45	1.07	.79
Depreciation, depletion	962	904	886	689	701
Amortization and write-off of foreign exploration	—	1,861	455	—	—
Equity in operating income of affiliate	359	1,808	106	—	—
Income before undernoted	6,197	6,169	6,975	5,376	3,740
Income tax — deferred	1,836	900	1,041	701	463
Net income before undernoted	4,361	5,269	5,934	4,675	3,277
Per common share	0.96	1.11	1.04	0.81	0.56
Extraordinary items	6,066	769	689	726	—
Net income	10,427	6,038	6,623	5,401	3,277
Per common share	2.32	1.28	1.16	0.94	0.56
Working capital — (deficit)	4,166	451	(462)	4,927	581
Long-term investments	27,430	29,446	36,689	10,000	15,000
Property and equipment - net	33,256	26,278	29,689	24,146	20,751
Long-term debt	16,547	20,000	21,526	2,203	5,409
Shares outstanding					
Common - no par value	*4,453	*4,435	5,649	5,643	5,629
Preferred - par value $50 per share	26	28	30	32	35
Shareholders' equity	37,656	27,104	36,321	29,816	24,520
Cost of finding and developing reserves					
Exploration	2,800	4,200	4,300	1,417	1,502
Development	5,100	500	2,700	2,780	1,122

*Excludes shares owned by Hatleigh Corp.

	1979	1978	1977	1976	1975
Production and Sales					
†Natural Gas Production — billion cubic feet	18.1	18.7	19.3	17.3	18.8
Average per day — million cubic feet	49.6	51.3	52.8	47.4	51.5
Pipeline —					
Annual throughput, billion cubic feet	7.5	7.6	6.0	6.5	6.0
Oil Production — barrels	47,700	40,000	43,000	45,600	52,500

†Includes Hatleigh Corp. production

COMMON STOCK PRICE RANGE

	Toronto Stock Exchange (Can.)				American Stock Exchange (U.S.)			
	1979		1978		1979		1978	
First Quarter	$13.50	$10.38	$11.00	$8.50	$11.75	$ 8.50	$ 9.88	$7.75
Second Quarter	17.25	11.50	10.25	8.63	15.00	9.50	9.25	7.63
Third Quarter	16.38	12.50	14.00	9.88	14.00	10.50	12.25	8.75
Fourth Quarter	22.63	14.50	12.88	8.75	19.75	11.75	10.88	7.13

NORTH CANADIAN OILS LIMITED
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 1979 and 1978

	1979	1978
Revenue		
Gas and oil	$10,782,000	$13,589,000
Less royalties	1,889,000	3,427,000
	8,893,000	10,162,000
Pipeline operations	5,561,000	5,543,000
Investment	783,000	636,000
Miscellaneous	363,000	82,000
	15,600,000	16,423,000
Expenses		
Operating	1,544,000	1,756,000
Gas purchased for resale	4,408,000	4,410,000
Administrative	730,000	706,000
Interest on long-term debt	2,320,000	1,903,000
Depreciation	295,000	297,000
Depletion	667,000	607,000
Amortization and write-off of foreign exploration costs	—	1,861,000
	9,964,000	11,540,000
Income before the undernoted	5,636,000	4,883,000
Income taxes (Note 6)		
Current (recovery)	(202,000)	522,000
Deferred	1,836,000	900,000
	1,634,000	1,422,000
Income before the undernoted	4,002,000	3,461,000
Equity in operating income of Hatleigh Corporation after preferred share dividends (Note 2)	359,000	1,808,000
Income before extraordinary items	4,361,000	5,269,000
Extraordinary items (Note 8)	6,066,000	769,000
Net income	$10,427,000	$ 6,038,000
Income per common share		
Income before extraordinary items	$ .96	$1.11
Net income	$2.32	$1.28

See accompanying notes.

NORTH CANADIAN OILS LIMITED
CONSOLIDATED BALANCE SHEETS
December 31, 1979 and 1978

ASSETS	1979	1978
Current assets		
Cash and short-term deposits	$ 2,638,000	$ 606,000
Accounts receivable	5,036,000	4,154,000
Due from Receiver General for Canada	950,000	1,491,000
Prepaid expenses	88,000	27,000
Total current assets	8,712,000	6,278,000
Long-term investments (Note 2)		
Hatleigh Corporation	20,546,000	17,769,000
Other	6,884,000	11,677,000
	27,430,000	29,446,000
Property, plant and equipment (Note 3)		
At cost	43,184,000	35,270,000
Accumulated depreciation and depletion	9,928,000	8,992,000
	33,256,000	26,278,000
Other assets at cost	258,000	150,000
	$69,656,000	$62,152,000

On behalf of the Board:

Robert F. [signature], Director

[signature], Director

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	1979	1978
Current liabilities		
Accounts payable	$ 4,546,000	$ 3,066,000
Due to Hatleigh Corporation	—	967,000
Long-term debt due within one year	—	1,794,000
Total current liabilities	4,546,000	5,827,000
Long-term debt (Note 4)	16,547,000	20,000,000
Deferred income taxes	11,057,000	9,221,000
Shareholders' equity (Note 5)		
Capital stock		
5½% cumulative redeemable preferred shares, par value $50 each; authorized 70,000 shares issued 25,925 shares (1978 — 28,410 shares)	1,296,000	1,420,000
Common shares, without nominal or par value; authorized 7,500,000 shares, issued 5,672,365 shares (1978 — 5,654,965 shares)	23,063,000	22,914,000
	24,359,000	24,334,000
Capital redemption reserve fund	2,204,000	2,080,000
Contributed surplus	23,000	—
Retained earnings	26,036,000	15,806,000
	52,622,000	42,220,000
Less cost of shares of North Canadian held by Hatleigh Corporation (Note 2)	15,116,000	15,116,000
	37,506,000	27,104,00
Contingency (Note 10)		
	$69,656,000	$62,152,000

See accompanying notes.

NORTH CANADIAN OILS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years ended December 31, 1979 and 1978

	1979	1978
Sources of Funds		
Income before extraordinary items	$ 4,361,000	$ 5,269,000
Add (deduct) items not requiring an outlay of funds		
Depreciation, depletion and amortization	962,000	2,765,000
Deferred income taxes	1,836,000	900,000
Equity in operating income of Hatleigh Corporation	(359,000)	(1,808,000)
Funds provided from operations	6,800,000	7,126,000
Dividend received from Hatleigh Corporation	—	11,500,000
Transfer of gas properties	—	5,296,000
Net proceeds from settlement of shareholder's action	196,000	—
Proceeds on sale of investments	5,663,000	—
Proceeds on sale of property, plant and equipment	249,000	—
Proceeds on issue of common shares	149,000	26,000
Reduction of note receivable from Hatleigh Corporation	3,282,000	—
Increase in long-term debt	4,710,000	8,200,000
Reduction of other assets	—	148,000
Total funds provided	21,049,000	32,296,000
Use of Funds		
Expenditures for property, plant and equipment	8,189,000	4,668,000
Reduction of long-term debt	8,163,000	9,726,000
Redemption of preferred shares	101,000	85,000
Dividends on preferred shares	73,000	80,000
Additions to other investments	700,000	—
Additions to other assets	108,000	28,000
Note receivable from Hatleigh Corporation	—	11,500,000
Investment in Hatleigh Corporation	—	5,296,000
Total funds used	17,334,000	31,383,000
Increase in working capital	3,715,000	913,000
Working capital (deficit) beginning of year	451,000	(462,000)
Working capital end of year	$ 4,166,000	$ 451,000

NORTH CANADIAN OILS LIMITED
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
Years ended December 31, 1979 and 1978

	1979	1978
Balance, beginning of year	$15,806,000	$29,284,000
Net income	10,427,000	6,038,000
	26,233,000	35,322,000
Deduct		
Transfer to capital redemption reserve fund (Note 5)	124,000	104,000
Dividends on preferred shares	73,000	80,000
Transfer to common share capital account	—	19,322,000
	197,000	19,516,000
Balance, end of year	$26,036,000	$15,806,000

See accompanying notes.

NORTH CANADIAN OILS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 1979 and 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned United States subsidiary.

b) Oil and Gas Operations

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves in North America are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, cost of drilling both productive and non-productive wells, oil and gas field production equipment, gathering lines, compressors and gas plants and overhead expenses related to exploration activities. All such costs are being amortized on the unit-of-production method, based on estimated proven recoverable reserves as determined by independent engineers.

As a result of surrendering an offshore concession in 1978, the unamortized balance of $1,520,000 was written off against income in 1978.

The pipeline is being depreciated over the term of the existing gas contracts and other equipment is being depreciated over the estimated useful lives of the assets. Leasehold improvements are being amortized over the term of the lease.

c) Translation of Foreign Currency

Foreign current assets and current liabilities are translated into Canadian dollars at the year end rate of exchange. Other assets and liabilities are translated at rates prevailing when acquired or incurred. Income accounts, other than the depletion and depreciation which are translated at the rates applicable to the related assets, are translated at the average exchange rates in effect during the year.

d) Income per Share

Income per share is calculated on the weighted average number of shares outstanding during the year. The weighted average number of shares has been reduced by 1,219,296 shares acquired in 1978 by Hatleigh Corporation.

2. LONG-TERM INVESTMENTS

	1979	1978
Hatleigh Corporation	$27,444,000	$21,385,000
Note receivable	8,218,000	11,500,000
	35,662,000	32,885,000
Less cost of shares of North Canadian held by Hatleigh Corporation	15,116,000	15,116,000
	$20,546,000	$17,769,000

As a result of a series of transactions in 1978, the Company now owns 100% of the common shares of Hatleigh which carry 49.3% of the votes at shareholders' meetings. Class A and B 9¾% special shares carry 50.7% of said votes. The Company, therefore, continues to account for its investment on the equity basis.

The change in the investment in 1978 increased the excess of the cost of the investment over the underlying net book value of the assets by $11,904,000 of which $5,326,000 has been allocated to real estate assets and $6,578,000 to goodwill.

The aggregate unamortized balance of the excess at December 31, 1979 amounts to $16,666,000 (1978 — $25,209,000). All of this amount at December 31, 1979 (1978 — $17,098,000) relates to goodwill and is being amortized over forty years. The 1978 balance that does not relate to goodwill has been charged against the equity in the extraordinary items of Hatleigh as it relates to the disposal of the underlying real estate assets in 1979.

During 1978 the Company received a dividend in the amount of $11,500,000 from Hatleigh. The Company subsequently advanced $11,500,000 to Hatleigh by way of an interest-free note receivable.

Summarized financial information reflecting net assets to common shareholders and results of operations of Hatleigh as at and for the years ended December 31, 1979 and 1978 is presented below. The information is after giving effect to certain adjustments in the financial statements of the Company treating the aforementioned 1978 series of transactions as a purchase.

	1979	1978
Net assets to common shareholders:		
Current assets	$ 27,692,000	$34,769,000
Investments		
North Canadian Oils Limited	15,116,000	15,116,000
Kesmark Holdings Ltd. — 10% debenture	9,000,000	—
Other	5,209,000	2,515,000
Gas properties	6,220,000	5,306,000
Rental properties and fixed assets	66,008,000	99,235,000
Other	19,643,000	37,501,000
	148,888,000	194,442,000
Current liabilities	34,009,000	47,776,000
Long-term debt	39,428,000	60,185,000
Deferred income taxes	5,613,000	17,576,000
Minority interest	23,290,000	25,542,000
Preferred shareholders' equity	19,104,000	21,978,000
	121,444,000	173,057,000
Net assets to common shareholders	$ 27,444,000	$21,385,000
Results of operations:		
Revenue from operations	$122,812,000	$65,634,000
Other	2,650,000	382,000
	125,462,000	66,016,000
Expenses including minority interest	120,053,000	60,783,000
Income taxes	3,107,000	2,672,000
	123,160,000	63,455,000
Earnings before extraordinary items	2,302,000	2,561,000
Extraordinary items	5,700,000	769,000
Net Earnings	8,002,000	3,330,000
Dividends on preferred shares	(1,943,000)	(753,000)
Net earnings accruing to common shareholders	$ 6,059,000	$ 2,577,000

2. LONG-TERM INVESTMENTS (Continued)

Other Investments

	No. of Shares	Cost	Market Value
1979			
St. Regis Paper Company	168,778	$ 6,184,000	$ 6,192,000
Bradie Building Ltd.	132	700,000	No quoted Market Value
		$ 6,884,000	
1978			
St. Regis Paper Company	318,778	$11,677,000	$10,626,000

3. PROPERTY, PLANT AND EQUIPMENT

	1979		1978	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
Petroleum and natural gas leases, rights, exploration and development costs and related equipment thereon	$38,188,000	6,149,000	$30,490,000	5,320,000
Pipeline, other equipment and leasehold improvements	4,996,000	3,779,000	4,780,000	3,672,000
	$43,184,000	9,928,000	$35,270,000	8,992,000

4. LONG-TERM DEBT

	1979		1978	
	Due Within One Year	Long-term Portion	Due Within One Year	Long-term Portion
Bank Loans	$ —	16,547,000	$ —	20,000,000
6% Series A Secured Notes maturing October 1, 1979	—	—	855,000	—
5½% Series B Secured Notes ($793,000 U.S.) maturing October 1, 1979	—	—	939,000	—
	$ —	16,547,000	$ 1,794,000	20,000,000

The bank loans bear interest from ½% to 1% above the bank prime rate and are secured by 3,300,000 common shares of Hatleigh Corporation and 168,778 common shares of St. Regis Paper Company. In addition the Company has undertaken to grant to the bank, if so requested, a first charge over certain gas properties to secure $4,250,000 of the indebtedness. Although the bank loans are subject to call on demand, the agreements do not require payment before March 1981.

5. CAPITAL STOCK

Preferred Shares Redeemed

Under the terms of issue of its preferred shares, the Company is required to purchase for cancellation 2,000 preferred shares in each year. The shares may be redeemed at par from the holders on 30 days notice or purchased on the market. At December 31, 1979 the requirements had been met and in addition 2,000 shares applicable to June 1, 1980 and 2,075 shares applicable to June 1, 1981 and 1982 have been cancelled (2,485 were purchased and cancelled in 1979). In connection with the redemption of the preferred shares $124,000 and $104,000 were transferred to the capital redemption reserve fund for 1979 and 1978 respectively. The differences between the acquisition cost and the par value of the preferred shares redeemed, in the amounts of $23,000 and $19,000 have been credited to contributed surplus for 1979 and 1978 respectively.

The preferred share indenture imposes certain restrictions on payment of common share dividends.

During 1978 the shareholders approved the conversion of common shares of a par value of $0.25 each to common shares without nominal or par value. In addition, the Company capitalized distributable surplus in the amount of $21,500,000 (retained earnings $19,332,000 and contributed surplus $2,168,000) by adding that amount to the paid-up capital attributable to the outstanding common shares of the Company.

Common Shares Issued	1979	1978
Shares issued under stock option plan	17,400	6,400
Consideration (being cash and notes receivable) credited to		
Capital stock	$149,000	$ 2,000
Contributed surplus	—	24,000
	$149,000	$26,000

6. INCOME TAXES

The provisions made for income taxes in 1979 and 1978 differ from the amounts which would have been expected if it were assumed that the reported pre-tax earnings were subject to the Canadian Federal statutory income tax rate for the year. The principal reasons for the differences between such "expected" income tax provisions and the amounts actually provided are as follows:

	1979		1978	
	Amount	% of Pre-Tax Earnings	Amount	% of Pre-Tax Earnings
Computed "expected" income tax	$2,593,000	46.0	$2,246,000	46.0
Increase (decrease) in income taxes resulting from:				
Non-deductibility of royalties and other payments to the crown	721,000	12.7	1,442,000	29.5
Federal resource allowance	(989,000)	(17.5)	(1,253,000)	(25.6)
Allowance for earned depletion	(408,000)	(7.2)	(329,000)	(6.8)
Provincial taxes less federal abatement	68,000	1.2	67,000	1.4
Provincial rebates and credits	(310,000)	(5.5)	(753,000)	(15.4)
Other	(41,000)	(.7)	2,000	—
	$1,634,000	29.0	$1,422,000	29.1

Deferred income taxes arise from differences in the rates at which certain costs have been written off for tax purposes and for financial reporting purposes. The principal items which gave rise to such timing differences, and the amount of deferred income taxes attributable thereto, are as follows:

	1979	1978
Excess of capital cost allowances deducted for income tax purposes over depreciation recorded in the accounts	$ 146,000	$251,000
Excess exploration and development expenses and lease acquisition costs deducted for income tax purposes over depletion and amortization recorded in the accounts	1,690,000	649,000
Total deferred income taxes	$1,836,000	$900,000

7. STOCK OPTION PLAN

Under the terms of Employee Common Stock Option Plans, options are exercisable cumulatively in three equal instalments within a five year period with the first instalment exercisable one year after date of granting the option. At December 31, 1979, 28,000 shares were still available for granting (38,500 at December 31, 1978). Options outstanding at December 31, 1979 expire in 1983 and 1984. Payment for shares issued under the stock option plan was accepted by the Company in the form of cash or notes receivable. Notes issued prior to 1979 which are secured by the purchased shares are non-interest bearing until they mature, at which time they bear interest at 8%. Notes issued subsequent to 1978 bear annual interest equivalent to the annual dividends paid on the Company's common shares held by the note holders, until they mature, after which they bear interest at 1% above the banking prime rate. All notes become due at the earliest of the date of voluntary termination of employment of the optionee, the date of sale of the purchased shares and ten years from the subscription date. Notes receivable in the amount of $156,000 at December 31, 1979 ($105,000 at December 31, 1978) are due from directors and officers and are carried on the balance sheet under other assets.

Option information:

	1979	1978
Options exercised	17,400	6,400
Options granted	10,500	61,500
Options outstanding December 31,	54,600	61,500
Option price	$8.55-18.05	$8.55

8. EXTRAORDINARY ITEMS

	1979	1978
Gain on sale of investments	$ 170,000	—
Net proceeds from settlement of shareholder's action	196,000	—
Equity in extraordinary items of Hatleigh Corporation:		
Gain on sale of Peel-Elder Developments Limited	2,929,000	—
Gain on sale of investments	1,720,000	—
Reduction of income taxes on application of losses brought forward	1,051,000	769,000
	$6,066,000	$769,000

9. STATUTORY INFORMATION

Directors and senior officers (twelve persons including the five highest paid employees) of the Company received remuneration amounting to $311,000 ($275,000 in 1978).

10. CONTINGENCY

The holders of the Class B special shares of Hatleigh Corporation may elect to exchange, until September 1, 1980 ten Class B special shares into a $70 principal amount 11¼% secured debenture. As additional security for the debentures the Company has guaranteed the payment of interest and principal if Hatleigh should default under the terms of the debenture issue. Prior to fulfilling this guarantee, the Company is obligated to redeem all of its outstanding 5½% cumulative redeemable preferred shares. At December 31, 1979, debentures in the amount of $3,490,000 were outstanding. The maximum principal amount guaranteed is $14,136,000.

DIRECTORS

J. TREVOR EYTON, Q.C.
President of Brascan Limited
Toronto, Ontario

* MARSHALL A. JACOBS
Senior Partner, Jacobs Persinger & Parker
New York, New York

■ J. BUCKLEY JONES
Retired
Calgary, Alberta

* JAMES F. KAY
Chairman of the Board of Dylex Limited
Toronto, Ontario

CHARLES K. LOUGH
Senior Vice President, Finance and Secretary of the Company
Calgary, Alberta

■ ROSS A. MacKIMMIE, Q.C.
Counsel to law firm - MacKimmie Matthews
Calgary, Alberta

FREDERIC Y. McCUTCHEON
President of Arachnae Management Limited
Markham, Ontario

■ HAROLD P. MILAVSKY
President and Chief Executive Officer of Trizec Corporation
Calgary, Alberta

* ROBERT F. RUBEN
President and Chief Executive Officer of the Company
Calgary, Alberta

* Member of Executive Committee

■ Member of Compensation Committee, and Audit Committee

FORM 10K

North Canadian Oils Limited will furnish upon written request to any registered shareholder, without charge, a copy of its most recent Annual Report — Form 10K, as filed with the United States Securities and Exchange Commission.

OFFICERS

ROBERT F. RUBEN
President & Chief Executive Officer

D. F. CHRISTENSEN
Vice President, Exploration

* B. L. COOK
Vice President, Land

NATHAN GOODMAN
Vice President, Production

CHARLES K. LOUGH
Senior Vice President, Finance

* R. T. SWINTON
Treasurer

KEY PERSONNEL

W. K. MILLER
Manager, Gas Transmission

B. A. KURUCZ
Chief Accountant

* Appointed February 1980

COMMON SHARE REGISTRARS AND TRANSFER AGENTS
GUARANTY TRUST COMPANY OF CANADA
Calgary and Toronto
The BANK of NOVA SCOTIA TRUST COMPANY of NEW YORK
New York City, U.S.A.

PREFERRED SHARE REGISTRAR AND TRANSFER AGENT
GUARANTY TRUST COMPANY OF CANADA
Calgary and Toronto

COMMON SHARES LISTED
TORONTO STOCK EXCHANGE (NCOT)
AMERICAN STOCK EXCHANGE (NCD)

PREFERRED SHARES LISTED
TORONTO STOCK EXCHANGE

AUDITORS
PEAT, MARWICK, MITCHELL & CO., Calgary, Alberta

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